

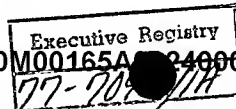
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Approved For Release 2004/03/15 : CIA-RDP80M00165A002400030006-0

Washington, D. C. 20505



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19 May 77

2 June 1977

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Dear Frank,

Thanks so much for your note and enclosed points on Gorshkov's book. For the most part, my staff agrees with your reading of the book.

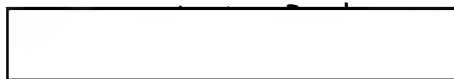
They are, however, somewhat skeptical of the characterization of Sea Power of the State as a "charter" for the Soviet navy. They tend to view Soviet military writers--even senior ones such as Gorshkov--primarily as historical interpreters and advocates, and not necessarily as authorities laying out firm blueprints for the future. Nonetheless, as you implied, much of what we see of the Soviet navy today has been foreshadowed somewhere in Gorshkov's writings.

Thank you again, and best of luck in your project.

Yours,

STANSFIELD TURNER

Mr. Frank E. McKenzie



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Admiral S. G. Gorshkov, Sea Power of the State; Selected Points and Comments.

General. This is, by a wide margin, the best formulation yet of Gorshkov's philosophy of sea power. He draws on history for many principles and examines how modern technology has reshaped them for the present and is likely to do so for the future. For the most part his ideas are in accord with those of Western analysts but some of the most interesting are not. Most of all, Sea Power of the State is a thorough, objective, even brilliant charter for the current and future Soviet Navy. The points that follow were selected because they seem noteworthy for one reason or another; they do not convey the broad sweep of Gorshkov's work.

Nuclear War. Gorshkov, like other Soviet strategists, writes more matter-of-factly about nuclear war than most Westerners but he believes that a "balanced" Navy must be able to carry out its missions in both conventional and nuclear war. He argues that naval forces, because of their mobility, are better able to function in nuclear war than other forces. In a passage on surface ships he notes that they are surrounded by an unlimited amount of uncontaminated material and are thus able to survive.

Support of submarines. In Gorshkov's view, submarines must be supported by other forces so that they can carry out their missions. This is a recurrent theme and he blames several failures in history, including that of the German submarine force in World War II, on neglect of this principle. In the German case the support would have been chiefly by air, but in appropriate circumstances surface ships would provide the necessary support. By support he means primarily anti-ASW-force operations and also reconnaissance. Gorshkov's ideas on support of submarines of course differ sharply from the traditional Western concept.

Submarines and aircraft the main naval arm. Submarines and aircraft are repeatedly referred to as the main naval forces, at least for strike. He nevertheless goes to considerable pains to point out why surface ships are essential.

Surface Ships as Centers for Command, Control and Communications. Gorshkov's emphasis on the value of surface ships as centers for C³ is striking, particularly his highlighting this function in the "prewar situation". This must certainly be a product not only of the Soviet doctrine of centralized control but, in case of war, of their determination to be ready--in part by means of good prewar C³--to strike first, to strike massively and to achieve tactical surprise.

Speed and Time. The development of "... increasingly more mobile platforms and long range, high speed weapons systems ..." is making speed "... an indispensable characteristic of any operation, battle and strike." according to Gorshkov. Actions will be shorter and attacks more effective. Speed helps make the attack overwhelming and irresistible. Pursuing a closely related theme, he believes that less time will be available in the future to carry out missions, that enemy groupings will have to be destroyed quickly before they can employ their own weapons.

Fleet-Against-Fleet Operations. In Gorshkov's view, these fall into two categories. First is the pure fleet action, not directly tied to the simultaneous accomplishment of other missions. The last major example was Jutland and such actions have become "impractical". The second type is the sea control battle associated with "operations against the shore" and support of SLOCs. This category is growing in significance.

Naval Operations Against the Shore. Gorshkov notes that this is nothing new and cites the 5th century B. C. landing of the Persians in the rear of the Greek Army and also the Roman landing operations during the Punic Wars. In addition to amphibious landings he considers shore bombardment, carrier strikes and, of course, nuclear missile strikes to be effective operations against the shore. He believes that operations against the shore have assumed dominant importance in naval warfare.

Navies in Peace. The subtlety of Gorshkov's views are apparent in the following quote:

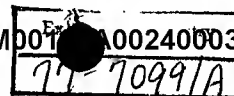
"Policy, as V. I. Lenin taught, is a concentrated expression of the economy, whose condition primarily determines the strength of such an important instrument of policy as the armed forces of the state. The economic might of a given country is expressed precisely in the condition of its armed forces.

"The Navy can be a graphic affirmation of this and an arbitrary indication of the level of the country's economy.

"F. Engels wrote: 'A modern naval ship is not only the product of major industry, but is at the same time an example of it . . . A country with the most highly developed major industry enjoys almost a monopoly on the construction of such ships . . . A political force at sea backed by modern naval ships is not a 'direct' force at all, but on the contrary it manifests economic power . . . ' "

The Director of Central Intelligence

Washington, D. C. 20505



14 APR 1977

Dear Frank,

Thank you most sincerely for your letter of congratulations on my new appointment. I very much appreciate your thoughtful words and the spirit of friendship which prompted them.

I really appreciated the kind words on the Foreign Affairs piece. I hope that it will lend perspective to some knotty problems even though I may not directly influence their resolution. Your reading of Gorshkov's Sea Power of the State interests me, please let me know of your results.

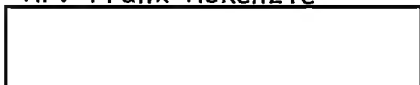
Again, many thanks and all the best.

Your,

/s/ Stansfield Turner

STANSFIELD TURNER
Admiral, U.S. Navy

Mr. Frank McKenzie



Distribution:

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ES  (12 Apr 77)

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77-7099

77-4-22

March 29, 1977

Dear Stan,

Congratulations on your new appointment. The President couldn't have made a better choice.

I was on the point of writing you over two months ago to tell you that your piece in Foreign Affairs seems to me not merely the best article ever to appear on this subject but the only really complete one.

In connection with some work I'm doing for Presearch I've been reading Gorshkov including his latest, Sea Power of the State. A few flaws perhaps, but a formidable personality. It strikes me that we in the U. S. Navy need a Gorshkov-- a combination philosopher and leader who can define a rational course and then get things moving. I hope that the fact that you haven't hung up the blue suit means that you will be back.

Sincerely,


Frank McKenzie

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SUSPENSE 1 June 1977
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Remarks:

Please forward comments and prepare
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D/Executive Secretary

24 May 77
Date

3637 (5-77)

MEMORANDUM FOR: The Director

Per our discussion attached is the
rewrite of ~~the~~ letter to Walter J. Levy.

Sayre Stevens
DDI

Date

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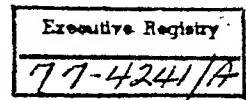
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OD/OER, (25 May '77)

The Director
Central Intelligence Agency



Washington, D.C. 20505



9/Dec/2017
5 May 77

1 June 1977

Mr. Walter J. Levy
30 Rockefeller Plaza
New York, New York 10020

Dear Walter,

Thanks for your response to my letter and the copy of your statement on US Energy Policy in a World Context. I found the argument most compelling. Although my oil and financial analysts might quibble on a number or two, we appear to be in close agreement on the nature and magnitude of the energy problems that the world will face in coming decades.

I want to thank you for accepting my invitation, extended by to join me in a small luncheon group on 8 June at noon. I expect to limit the outside participation to four or five people of considerable reputation in the energy field.

Looking forward to seeing you then.

Yours,

STANSFIELD TURNER

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77-4241/A

Washington, D. C. 20505

Mr. Walter J. Levy
30 Rockefeller Plaza
New York, New York 10020

Dear Mr. Levy:

I read with great interest the statement on US Energy Policy in a World Context, which you were kind enough to send me. I found the argument most compelling. Although my oil and financial analysts might quibble on a number or two, we appear to be in close agreement on the nature and magnitude of the energy problems that the world will face in coming decades.

TAT I want to thank you for accepting my invitation, extended by [redacted], to join me in a small luncheon group on 8 June at noon. I expect to limit the outside participation to four or at the most five people of considerable reputation in the energy field.

Yours,

STANSFIELD TURNER

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The Director of Central Intelligence

Washington, D. C. 20505

5/25

AT



Re our
discussion this
morning S/A

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Washington, D.C. 20505

Mr. Walter J. Levy
30 Rockefeller Plaza
New York, New York 10020

Dear Mr. Levy:

I read with great interest the statement on US Energy Policy in a World Context, which you were kind enough to send me. I found the argument most compelling. Although my oil and financial analysts might quibble on a number or two, we appear to be in close agreement on the nature and magnitude of the energy problems that the world will face in coming decades.

As I mentioned in my earlier letter, I believe that discussions between you and some of my analysts would be mutually beneficial. One of my staff will be in touch to arrange such a discussion when you are in Washington.

Yours sincerely,

STANFIELD TURNER

DDI # 2007-77/1

MEMORANDUM FOR: The Director

Attached is a letter in response
to Walter J. Levy's letter of 5 May 1977.

Sayre Stevens
DDI

Date

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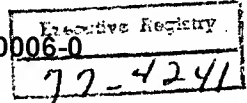
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OER/D/I

(19 May 77)



WALTER J. LEVY

30 ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

CABLE ADDRESS
"WALTLEVY"

TELEPHONE
JUDSON 6-5263

May 5, 1977

Admiral Stansfield Turner, U.S. Navy
Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. 20505

Dear Admiral Turner:

I very much appreciate your letter of April 28, and want to thank you very much for sending me the two reports on international energy and Soviet oil, recently released by the CIA.

I read them with a great deal of interest, especially the one dealing with the international energy situation because we have, as you know, been doing related work for a number of years. I have some comments which I would be very happy indeed to discuss with you or your staff at a mutually convenient time. I am also enclosing a copy of a statement that I presented before the Council on Foreign Relations on April 1, and shortly thereafter used as a basis for a presentation at the Time Inc. Energy Conference in Williamsburg, dealing in part with the same subject matter.

With regard to the CIA study on Soviet oil production, I unfortunately do not have sufficient factual and geological background to be able to evaluate the validity of its conclusions. Accordingly, I do not believe that I could make a relevant, critical contribution.

I am very much looking forward to hearing from you as to when you might wish me to come to Washington.

With best regards,

Sincerely yours,


Walter J. Levy

WJL:iw
enc. 1

I. Introduction

1. In about three weeks time, the President will announce the outline for a new U.S. energy policy, dealing with all aspects of our current and future energy supply and demand position.

II. The Energy Setting for the Next Ten to Fifteen Years

2. In establishing its policy our Government must undoubtedly take into account that there can be no "Energy Fortress America." Any U.S. energy policy can only be viable within our given political, economic, financial and strategic framework if it is coordinated with the vital interests and actions of the other member nations of the non-Communist world. I will, in short order, develop the arguments in support of this intimate interdependence. But let me perhaps first set the scene by giving you as succinctly as possible the world energy picture as it would now appear to evolve during the next ten to fifteen years. The statistics are drawn from the recent excellent report on the "World Energy Outlook" by the Organization for Economic Cooperation and Development.

A. The Prospects for Oil

3. We will concentrate our comments on the oil sector, as oil will remain the major basis of energy supply for the non-Communist world --

certainly during the medium-term -- and as the major international policy issues will arise in connection with the availability and payments for oil.

Accordingly, I am addressing myself to two questions:

First, is there going to be enough oil available to cover the essential needs through the 1980's and beyond the early Nineties; and

Second, what will be the cost of the oil and what are the balance of payment implications for many of the developed and most of the non-oil-producing developing countries?

4. If current policies governing supply expansion and conservation are continued, the oil import demand of OECD countries by 1985 would amount to 35 million barrels daily (as compared with 25 million barrels in 1974) and for oil-importing developing countries to some 4 million barrels per day, or about the same as in 1974. The combined total for the non-Communist world would thus reach 39 million barrels daily. By 1990, this total would have increased to 45 billion barrels. About 90 per cent of the imports will originate in OPEC countries.

5. On the basis of optimistic assumptions for maximum conservation and a massive effort of developing all sources of energy, total oil imports in 1985 would still be 29 million barrels daily and 25 million barrels in 1990. As the underlying assumptions for arriving at these estimates have been set forth in the OECD Report, I will not repeat them here.

6. To achieve the supply expansion and the demand reduction implied in the optimistic OECD case would pose a most difficult task. Without burdening this presentation with further statistical details, let me just mention that it would presuppose an almost nine-fold increase in atomic energy production between 1974 and 1985 -- which in terms of oil would be the equivalent of about nine and a half million barrels daily -- , an over 40 per cent rise in world coal output -- sufficient to replace by 1985 the equivalent of over six million barrels per day of oil -- and an advance in U.S. oil production that would presuppose an annual discovery rate of over four billion barrels per year, or some 50 per cent above any previously sustained level of discovery.

7. Accordingly, we will base our analysis on an intermediate case reflecting more or less the arithmetic average between the two cases; implying an oil import level of about 34 million barrels daily in 1985 and 35 million barrels per day by 1990. We should stress that even these figures still reflect a very optimistic assessment indeed of our future oil import dependence

B. The Future Cost of Oil Imports

8. The cost of OECD oil imports in 1985 -- with an inflation factor of seven and one-half per cent per annum -- would reach in then current dollars some 233 billion dollars and for oil-importing developing countries another 33 billion dollars, making for a combined total of nearly 270 billion dollars. For 1990, the corresponding oil import bill would amount to about 300 billion dollars.

III. Major Issues Implied in the Oil Supply Picture

9. Let me now review some of the policy implications that are posed by the forecast just given. There is first and foremost a real question whether enough oil can be produced for the period beginning around the early Nineties.

A. Physical Limitations on Future Oil Production

10. Let us assume a future average discovery rate of some 15 billion barrels of new oil a year, a figure that is somewhat higher than previous experience suggests. Given this optimistic assumption, the ratio of the world's current oil production to proven reserves would decline from some 33 years as of now to about 20 years by 1990 -- with the ratio for OPEC countries declining from 40 years to 27 years. Less than one-half of 1990 production would be obtained from new discoveries, the balance would come from reserves known today.

11. Three major conclusions emerge. First: Towards the beginning of the Nineties, even ignoring any restrictions oil-producing countries may impose on their level of output for political or economic reasons, we may in fact be approaching a time when physical limitations will impinge on maintaining, and even more so, on increasing world oil production. This applies to most oil-producing nations, except perhaps

Saudi Arabia and a few Sheikdoms where almost half of the world's known oil reserves are located. Because of the long lead time from exploration to development, the supply availabilities through much of the Eighties are already largely determined; the only major opportunity for obtaining massive new supplies depends on continued free access to known Middle East reserves.

Second: We may soon be confronted by a severe competition among the oil-importing countries for access to oil supplies that may translate itself into policy and strategic as well as economic conflicts.

And third: When oil reserves begin to trend downward, towards a level where current production could no longer be sustained, oil prices would not only respond to inflationary factors, but the real price of oil would also rise and may sooner or later skyrocket.

12. As the national energy demand, the local energy supply and thus the oil import requirements of all the members of the non-Communist world are interdependent, the United States, as the single largest energy user and oil importer, plays a particularly significant role.

13. What the United States can achieve in the field of conservation is of worldwide relevance, not only because it would affect U.S. oil imports, but also because it could provide the technology and would set a pattern for progress in conservation elsewhere. The same observations hold

true for U.S. research and development efforts in the field of energy supplies from all sources.

14. A coordinated energy research and development program including all the resources of the non-Communist world is absolutely essential. A future energy crisis can -- if at all -- only be avoided or mitigated if such a maximum program is carried out, and if we are lucky and skillful enough to discover in time very large new hydrocarbon resources, or are able to accomplish dramatic technological breakthroughs for new sources of energy.

15. In this connection, it should be stressed that a substantial expansion of atomic energy would appear to be absolutely essential for most of the OECD countries which, unlike the U.S., do not possess large oil or coal reserves. A U.S. policy of going slow because of the still unresolved dangers of atomic proliferation and waste disposal would, if followed by other OECD countries, lead to an energy crunch which might otherwise have been avoided or at least postponed. And needless to say, that if the non-U.S. OECD countries should proceed with their atomic development programs, as I believe they will and probably must, we would still be exposed to the dangers of proliferation and waste disposal, because the atomic threat knows no boundaries. Any U.S. policy of "atomic abstention" would not only tend to reduce or delay the chances of coping with atomic dangers, but would also affect our international influence and standing in this field.

B. Political and Economic Limitations on Future
Oil Production

16. Long before limitations on the physical availability of oil would occur, producing countries might impose politically or economically motivated restrictions on the level of their oil production and exports. Here, too, the United States, as the leading power of the non-Communist world, is best placed to assure the unimpeded flow of oil in the world's trade.

17. It is the United States that has the capability to provide protection for the major oil-producing areas against external as well as internal threats; and the relevant producing countries know this full well, whether they strive openly for a so-called special relationship with the United States or take it tacitly for granted. Likewise, only the United States has the power potential to secure the availability of OPEC oil for world markets in case internal, regional, or other external forces threaten to interdict its free flow.

18. Also, oil exploration, production and exports rely in most of the major producing countries on the technical, managerial and marketing competence of American oil companies; and overall economic development is substantially dependent on a major input from the U.S. industrial and technical complex.

19. "The United States thus possesses an indispensable -- but not necessarily always effective -- position of special influence and bargaining leverage. If the issue of restricting oil exports for political or economic reasons should ever become a threat to the welfare of oil-importing countries, the extraordinary position of Saudi Arabia in terms of the richness of its oil reserves and the abundance of its financial strength is -- for better or worse -- of particular relevance. The peculiar and somewhat tenuous pattern of Saudi society and nationhood, with its fragile foundation for public institutions, infrastructure, and other usual attributes of national power, provides special opportunities as well as dangers for establishing influence. This is equally relevant in convincing the Saudis that in the interest of a stable world, producing countries must adopt a responsible policy in their decisions on oil pricing.

20. This presupposes a willingness of the importing countries to provide sufficient inducements to producing countries to maintain production levels beyond their own economic and financial needs. This could, among others, also involve complex arrangements for the protection of OPEC's surplus financial reserves against erosion through inflation and also other kinds of understandings that would join the interests of the producing countries to those of the importing nations. For instance, we may have to offer inducements to the Saudis by providing for some compensation for the future increase during an agreed upon number of years in the real value of their oil production -- to the extent that it would exceed their current financial needs.

21. The creation of the International Energy Agency (IEA) -- through the initiative of the U.S. -- has eased considerably any threat of a future oil embargo by providing for the accumulation of strategic reserves and for automatic burden-sharing among the importing countries; in addition,

the IEA also establishes the institutional framework for a broadly-based cooperation on all major energy problems among importing countries and for the reasonable resolution of issues that may arise between importing and producing countries.

22. Nevertheless, there remains still more than a nagging doubt whether the non-Communist world will be able to cover its future energy needs if all our intermediate efforts do not lead in time to major increases of energy supplies from known or yet unknown sources of energy.

IV. The Financial Dimensions of World Oil Imports

23. Let us now turn to the complex problems arising from the balance of payment burden that importing countries must incur for their oil purchases. As mentioned previously, the cost of oil imports of the non-Communist world would reach in current dollars some \$270 billion in 1985 and \$400 billion by 1990.

24. For the foreseeable future, the non-oil-producing less-developed countries and also a number of the financially weaker developed countries face foreboding problems in covering their current account deficits. Only those few among the oil-importing countries that are financially strong or industrially advanced would be able to benefit directly from the deposits of financial surpluses by OPEC countries, their investments, or their imports

of goods and services. Most of the others must rely for an improvement of their foreign exchange position on sustained economic progress or on financial credits and grants they might receive from financially strong countries or international institutions.

25. Much has been said about the past success of recycling, implying that it is a problem that would fade away in due course. In fact, each passing year during which we have somehow managed to cope makes the next one more difficult, as increasing debt levels in many countries are approaching the limits of their creditworthiness. Because of the apparent success of recycling during the last three years, the awareness of this threat to the world's financial system has been dimmed; but a great deal of attention is now again being given to it.

26. Let me refer to a recent warning by Arthur Burns, which he expressed before the Joint Economic Committee of Congress, where he stated that he had "communicated in strident tones" to leading bankers his concern about the risks of repayment of the \$50 billion of loans that had been made by American banks to developing countries that are not oil producers.

27. Likewise, at a recent OECD meeting in Paris, the Chairman of the OECD Economic Policy Committee expressed a nagging worry about the accumulating current account deficits. He asserted that "assuming

only moderate future oil price increases, the cumulative current account deficit of OECD countries between 1975-1980 could be estimated at \$110 billion, and that of the non-oil poor countries at \$160 billion."

28. Finally, Alan Greenspan, the former Chairman of President Ford's Council of Economic Advisors, stated last month before the Conference Board that at present world price relationships, the non-OPEC countries must, as a group, borrow at least \$40 billion each year, cumulatively year after year, with no way of shunting the cumulative debt on somebody else.... He concluded that "cumulating year after year, \$40 billion deficits will eventually create such a huge debt structure that most Western industrial nations, and ultimately the U.S. itself, will find it difficult to meet the interest and amortization charges on the loans.... Realistically, either the real price of oil must come down or world oil use must fall dramatically."

29. There is no easy way out of this dilemma. It would be self-defeating to try to cover the balance of payment deficits by solutions that would lead to an over-expansion of world liquidity and would result in continuous and potentially rampant inflation -- even though the debtor nations could then repay their existing obligations with a fraction of the real value of the amounts originally received. Nevertheless, the temptation for at least some countries to mitigate their debt burden or to avoid default by passively accepting or even welcoming inflationary forces could prove to be dangerously attractive.

30.

At the same time, however, oil prices would tend to rise with inflation; and the higher the rate of inflation, the greater the pressure on producing countries to restrict oil production rather than to accumulate financial reserves that might lose purchasing power through inflation. And with lower production, oil prices would increase even faster -- thus triggering a downward slide of our economy at an ever increasing speed.

31.

It is thus essential that the existing institutions such as the World Bank, the International Development Association, and the International Monetary Fund handle, where appropriate, the refinancing and new credit requirements of a large number of countries. This effort must be spearheaded and supplemented by agreements between the strong OECD and OPEC countries to supply the funds that are needed for the solution of the financial problems. What is required in many instances is a rescheduling of existing obligations, an abatement of interest rates, new soft loans and grants. In short, what we are really talking about are international arrangements for a sustained real transfer of wealth from the prosperous to the poorer countries, with its inevitable effect on the standard of living in the richer countries. Financing can thus no longer be limited to take place largely outside national budgetary processes, with all the political problems that such a change of financing would involve.

V. What About the Future?

32.

In looking now to our energy future, we face indeed most difficult and perhaps even intractable problems. On the one hand, there is

the danger of declining energy supplies that would obstruct progress toward an expanding and prosperous world economy; on the other hand, increasing oil import costs might exceed the financial capability and the foreign exchange resources of many oil-importing countries. But only broadly based economic progress would at least mitigate the balance of payment problems that oil imports would pose for many of them.

33. It would be foolish to deny that the future is clouded, that the task we have to undertake is very difficult, and the prospects for success at best uncertain. It is indeed not pleasant to arrive at so pessimistic a prognosis. But it would be wrong to interpret what we have said as an appraisal of the future that is immutable and inevitable. Yet only by frankly assessing the future problems that may confront us, and taking timely and decisive actions, do we provide ourselves with the opportunity to reverse the course of events and invalidate our earlier prognosis.

34. And with the immense stakes at issue, failure is not an acceptable option. It is thus incumbent upon us to marshal all available forces of human inventiveness and to accept the necessary economic sacrifices so that a shortage of energy will not extinguish the light at the end of the tunnel.

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D/ Executive Secretary

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13	D/Pers				
14	D/S				
15	DTR				
16	Asst/DCI				
17	AO/DCI				
18	C/IPS				
19	DCI/SS				
20	D/EE0				
21					
22					
SUSPENSE		Date			

Remarks:

3637 (7-76)

D/ Executive Secretary
 9 May 77
 Date

SECRETARY FOR D/DCI/IC